An ink-stained stretch

Can Aaron Kushner save the *Orange County Register*—and the newspaper industry?

BY RYAN CHITTUM

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Rob Curley, one of the more prominent digital journalists of the last decade, had just about had it with newspapers. Tired of laying people off and trading print dollars for digital dimes, he quit his job as chief content officer of the *Las-Vegas Sun* last summer to take an executive job at a real-estate company.

But then a relatively unknown investor named Aaron Kushner called. Kushner and his partner, Eric Spitz, had just bought the *Orange County Register* and had an improbable (some would say impossible) plan to resurrect the gutted paper: Invest heavily in journalism—and in print. "I had no interest in coming to the *Register,"* says Curley, "but I sat down and talked to him and said, 'Shoot, I'm coming.'"

Kushner, a 40-year-old former greeting-card executive with zero experience in newspapers, is running the most interesting—and important—experiment in journalism right now. His thesis is simple, but highly contrarian: Newspapers are dying in large part from self-inflicted wounds, and there's money to be made in print, particularly from subscribers.

The first part of the thesis rests on the fact that publishers, faced with fierce competition from Craigslist and Google, not to mention a severe recession, reacted by slashing their newsrooms and putting out papers so thin, you could read them in minutes. In attempting to maintain double-digit profit margins in the face of an ad market that has changed forever, newspapers undermined—perhaps fatally—their long-term health.

The second part of Kushner's thesis suggests that publishers listened too long to the siren song of the digital gurus, who told newspapers that they shouldn't—and couldn't—charge online, and that print journalism was hopelessly outdated. Plunging circulation stunned publishers, even as they charged hundreds of dollars a year for much weaker papers while giving away their content free online for 15 years.

For Kushner, the answer is to bet on readers. Give them really good journalism—lots of it—and charge them for it. "If we are, every day, giving our subscribers more value, that creates more value for our advertisers, and for the community as a whole, then over the long term we can grow revenue," he says.

It's an audacious and expensive bet, and its outcome may reveal whether American newspapers can survive, much less flourish. Is Kushner—whose first entrepreneurial hit, by the way, was a dot-com—squandering his money on a hopelessly outdated business model? Or is he onto something?

"IF IT WERE JUST GREAT JOURNALISM, I'D BE AS SKEPTICAL as anybody else," says Ken Brusic, who's been the *Register's* editor since 2002. "These guys, being from outside the industry, have looked at the business model and really turned it upside down."

A fresh pair of eyes hasn't always been a boon to the newspaper industry. Real-estate billionaire Sam Zell was a catastrophe for Tribune Company, and megaflack Brian Tierney flopped in Philadelphia. Avista Capital Partners and its lenders lost half a billion dollars on the Minneapolis *StarTribune,* and Alden Global Capital couldn't keep the Journal Register Company from sliding into bankruptcy (again).

All those bankruptcies, save the JRC'S, had something in common: Loads of debt used to fund purchase prices that reflected pre-2008 valuations, and severe cost cuts meant to prop up declining profit margins. Kushner had the benefit of buying *Register* parent Freedom Communications out of bankruptcy—after newspaper valuations had already fallen 90 percent in some cases. The *Register's* newsroom and newshole had been chopped in half over the previous eight years, and its circulation was down 47 percent.

The changes were almost immediate. A recent run-of-the-mill Monday edition had 72 pages and eight standalone sections. The *Los Angeles Times*—once the *Register's* hated rival in Orange County and a paper with nearly three times its print circulation—published 38 pages the same day. *(The Washington Post* printed 44, while *The New York Times* ran

Betting man Kushner bought the *Register* cheap and is investing in it heavily, including one of the biggest hiring sprees in newspaper history. Will it pay off?

48.) The *Register* has grown so fat that its Monday paper-typically the smallest edition of the week—approaches the size of Sunday papers in bigger markets. That week, the Sunday *Seattle Times,* a paper with comparable circulation, had just 94 pages. The *Register's* Sunday paper had 242.

And it's not stuffed with wire copy, either. The Monday edition had roughly 50 .Register-only bylined stories and columns, 85 staff or contributed photographs (most in color), and three major infographics. Over one week in late March and early April, CJR counted 167 ad pages, roughly 30 percent of the total pages printed.

While the ad-edit ratio can't match historic levels, the size of the paper is reminiscent of the *Register* at its peak. For much of its 108-year history, the *Register* was a cash machine controlled by the Hoiles family, whose rabid libertarianism helped form the politics of fast-growing Orange County.

Decades of the kind of family feuding that has upended many a newspaper empire presaged a 2003 leveraged buyout of some family members' stakes, which left Freedom Communications with too much debt when newspaper ads fell off the cliff. Its 2009 bankruptcy ended nearly 75 years of Hoiles family control, and private-equity investors took charge the next year as Freedom emerged from bankruptcy. Kushner's 2100 Trust bought Freedom last summer for an undisclosed sum.

For years, the *Register* had followed the best practices of the digital-first evangelists, focusing on luring pageviews to its free website at the expense of the quaint print journalism that still brought in almost all the money. Reporters had Hogging and Web-traffic quotas, and a clicks scoreboard filled TV screens in the newsroom, touting the hottest posts. That led to slideshows like "Sexy cafes are Little Saigon's twist on Hooters," and pieces like 'Man's penis saved after getting stuck in dumbbell ring"—three paragraphs aggregated from the *Newport Beach Daily Pilot,* which became the *Register's* fifth-most-clicked article of2009. "You had to make the numbers," says Jonathan Lansner, a longtime *Register* business columnist and real-estate blogger, "so things got a little cheesy or stupid."

But it was all for naught. Staggering under the heavy debt load, along with the evaporation of print ads and the failure of digital-ad revenue to materialize in meaningful amounts, executives slashed the newsroom to 180 journalists by last summer, down from 380 a decade earlier. "The depth of the report on any given day was suspect," Lansner says. "How could it be any good when it was that small?"

Kushner shut down most of the *Register's* blogs and re-focused reporters on "more quality, informative content." He expanded the page count by 50 percent, significantly increased the number of color pages, launched several new standalone sections, and even—get this—upgraded the quality of the paper stock.

Most important, he's gone on what must be one of the biggest hiring sprees in newspaper history, boosting the editorial staff by two thirds in less than a year. The *Register* has added investigative reporters, enlarged its graphics team, re-opened its DC bureau, and doubled staff at its 22 community weeklies. It has hired a James Beard Award-winning food critic and veterans of *The New York Times, Time,* and the *Los Angeles Times,* adding more than 140 journalists so far (plus about 100 in sales).

For a newsroom beaten down by years of diminishing resources, the changes are astonishing. "It is like living in a parallel universe," Brusic says. "You see the rest of the world, and you're doing something that's completely different."

Kushner's outsider perspective has resulted in some missteps. This spring, the *Register* launched weekly sections about three local universities that agreed to buy $275,000 worth of ads for the year. The *Los Angeles Times* reported in March that the *Register's* pitch to the University of California-Irvine promised that its section would "focus on achievement and success" and "reflect the excellence of uci." And indeed, the university sections so far have been awfully soft, though *Register* management says it maintains editorial control.

Kushner also caused a stir when he told his newsroom that it's not its job to "afflict the comfortable and comfort the afflicted." He responded to his critics, noting that he has recently hired more accountability reporters than all the other US papers put together.

SEVEN YEARS AGO, NEWSPAPERS GOT BETWEEN $4 AND $5 in ads for every dollar of circulation revenue, a ratio that has dropped to two-to-one today on a 55-percent decline in

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The formula: Give readers good journalism—lots of it—and charge them for it.

ad revenue. In the meantime, circulation revenue remained roughly unchanged. Some papers, most notably *The New York Times* and the *Financial Times,* now get more money from subscribers, both print and online, than they do from advertisers—an historic shift.

The *Register* doesn't have the benefit of an international audience or a financial-industry focus. Brusic calls the *Register* the country's largest community newspaper, and that's where Kushner has deployed much of his effort and resources. He hired Curley, a veteran of the hyperlocal-journalism movement, to head the local news group, which publishes weekly papers in Orange County's towns and cities. "I grew up in a small town where the local paper had half a page of who's visiting who in the nursing home," says Curley. The redone weeklies are "really old-school. It's your grandmother's newspaper, designed by the Design Institute."

The *Register* heavily covers high-school sports and publishes two pages of color photographs of the games in each weekly edition. It also started a weekly section called OC Varsity Arts that spotlights the non-jocks. Kushner is enamored with the idea of readers cutting out pictures from the paper and sticking them on the fridge. "You can't put an iPad on the refrigerator," he says. 'You can't put it in a scrapbook. You can't tape it to your locker."

That Kushner thinks he can get smartphone-obsessed teenagers to pick up an old-fashioned newspaper—even if their friends are in it—signals that parts of his plan are a stretch. Because Freedom is privately held, it's unclear how much money Kushner and his partners are investing. The media analyst Ken Doctor estimated earlier this year that the annual tab for the newsroom hires and new print costs was roughly $10 million, and that revenue gained from increased subscription prices could offset that. The *Register* has since hired another 50 journalists, adding perhaps $4 million to $5 million to that stunning number.

The big question is where the growth needed to counterbalance the ad decline will come from. The *Register* raised its print subscription rate to a dollar a day and installed a hard paywall, which has been unsuccessful most places it's been tried. The price for digital access? A dollar a day. "Our content's incredibly valuable, and our focus is on subscribers," Kushner says. "For the people who were in essence cannibalizing our business, they can make the decision: Either our content is valuable enough that they want to pay a dollar a day, or they don't, and we haven't done our job to convince them."

The New York Times and others have showed how a metered paywall model can work, preserving digital ad dollars while adding a new stream of subscription revenue and at the same time discouraging print readers from dropping the paper. The *Register* has gone another way. Its managers say they're charging for the content, not the medium, but it's clear that this is a big bet on print. Yet the most conceivable future for newspapers, 10 or 20 years hence, is one in which they have converted print and hybrid subscribers to digital-only subscribers, shedding much of the cost of production and distribution. The *Register* will pick up few digital-only subscribers at $30 a month, particularly when its website and tablet apps are so weak. If the bet is truly on content and not the medium, digital will require serious investment, too.

Kushner is also banking on the idea that advertisers have been fleeing print in part because readers have been fleeing it. Win them back and advertisers—not all, but some—will return. But will they? There are many other factors. "I suspect that a lot of what's happened in the last 20 years is that the journalism has suffered," says John Morton, a veteran industry analyst. "But how much of the decline in newspaper circulation can be attributed to that, and how much can be attributed to the Internet—who knows?"

Still, much of Kushner's model does make sense. American newspaper operations are still quite profitable, with operating margins that average between 8 percent and 10 percent, according to Morton. The rash of bankruptcies in the last three years was primarily due to debt loads tacked on by Wall Street mergers and acquisitions. Those bankrupt newspaper companies still posted significant operating profits, which exclude debt-service costs.

The profit margins are constantly pressured, though, by declining ad revenue. What's changed in the last two years is that many papers are offsetting most or all of those ad declines with money from subscribers.

Freedom Communications President Eric Spitz told Mathew Ingram in April that the *Register* was making its aggressive print revenue targets for the first two months of the year. The paper's next circulation report—due by the time you read this, at the end of April—will give an early indicator of the plan's potential. A relatively flat report would be good news. A sharp decline would not.

Kushner has already rolled out creative new ways to add value for readers and advertisers. The *Register* gave each subscriber a $100 voucher to give ad space to their favorite charity, for example. The paper also signed a deal with the Los Angeles Angels to give subscribers unsold tickets to games, nudging the *Register* toward a membership model.

While it's far too early to tell whether Kushner's plan will work, it's fair to say that the odds are against it. Print advertising is—barring a miracle—in an inexorable tailspin. Readers have more sources for news and entertainment than ever, and print-loving stalwarts are aging rapidly. Print isn't picking up readers under 30, and it's unclear how successful charging them full freight online will be.

But if Kushner fails, he will have gone down investing in journalism. And he says he's in it for the long haul. "I don't think that our model is for everybody," Kushner says. "It takes a really long-term commitment. We have no institutional investors. We have no plans for an exit. We bought this basically to own it indefinitely." CJR

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